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GAO

Report to Congressional Requesters

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FOREIGN ASSISTANCE

Funds Obligated Remain Unspent for Years

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GAO

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National Security and
International Affairs Division

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The Honorable Dante B. Fascell
Chairman, Committee on Foreign Affairs
House of Representatives

The Honorable Sam Gejdenson
Chairman, Subcommittee on International
Economic Policy and Trade
Committee on Foreign Affairs
House of Representatives

The Honorable Lee H. Hamilton
Chairman, Subcommittee on Europe and
the Middle East
Committee on Foreign Affairs
House of Representatives

This report responds to your joint letter requesting that we examine the Agency for International Development's economic assistance pipeline—the funds obligated for development assistance and economic support but not yet expended.

We are sending copies of this report to the Secretary of State, the Admistrator, Agency for International Development, and other appropriate congressional committees. We will also make copies available to other interested parties upon request.

The report was prepared under the direction of Harold J. Johnson, Director, Foreign Economic Assistance Issues. He can be reached at (202) 275-5790, should you or your staff have questions. Other major contributors are listed in appendix III.

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Executive Summary

Purpose

As the post cold war era begins, the Agency for International Development (AID) confronts a changing international order in which increased demands for assistance can be expected. However, continued federal deficits mean that, more than ever, AID will be challenged to do more with less and must use its limited resources more effectively. A key resource is its $8.5-billion pipeline of development assistance and economic support funds—unspent funds obligated to finance assistance projects and programs worldwide.

The Chairmen, House Committee on Foreign Affairs and the Subcommittees on Europe and the Middle East and International Economic Policy and Trade, House Committee on Foreign Affairs, were concerned about AID's management of these obligated but unspent funds and requested GAO to (1) determine whether the pipeline of unexpended funds exceeds the amount needed to carry out AID projects and programs, (2) determine what factors have contributed to the excess, if such an excess exists, and (3) examine AID actions that might help use pipeline funds more effectively.

Background

Congress appropriates foreign assistance funds and AID obligates them for specified development programs and projects, such as building roads in rural areas. Congress earmarks some funds and requires AID to use them for specified functions or countries. The funding pipeline is the difference, at any point in time, between the amount that AID has obligated for its activities and the amount it has spent on them.

To ensure that obligated funds do not simply accumulate in the pipeline but actively advance agency goals, AID's "forward funding guidance" limits to 1 year the amount of planned spending that can be obligated for ongoing projects. Construction and certain other activities can be funded in excess of this. To provide a conservative assessment of whether AID's pipeline was excessive, GAO generally allowed projects and programs to have up to 2 years of spending in the pipeline. Amounts beyond this were considered excessive.

Over 80 AID offices and missions fund overseas projects. GAO examined 103 projects at missions in six countries—Egypt, Guatemala, Honduras, Kenya, Pakistan, and the Philippines. These projects accounted for 33 percent of the funds in the pipeline at the end of fiscal year 1989.

Results in Brief

GAO found that $296 million of $2.8 billion in the pipeline of the six missions visited was not programmed to be spent within the next 2 years. Since these funds are not planned for use within 2 years, they represent a lost opportunity for AID to redirect scarce resources to higher priorities. An additional $8 million at these missions was obligated for projects that had completed all activities by September 1989 or earlier. GAO found indications that excesses also exist at other missions.

Unrealistic or overstated implementation planning is the major factor contributing to projects having excess funds in the pipeline. Circumstances that AID cannot control, such as delays by host governments, also resulted in excess funding. AID has made limited use of its statutory authority to deobligate funds from slow or stalled projects, in part because host countries must agree to the deobligation.

Recently, AID introduced performance budgeting, which may help use the pipeline more effectively. Performance budgeting is designed to reallocate funds to countries that successfully implement policy reforms.

GAO's Analysis

AID's Pipeline Contains Excess Funding

The six missions that GAO visited had a range of from 5 to 21 percent excess funding in their pipelines as of September 30, 1989. Although the percentage of excess funds at the six missions cannot be projected worldwide, GAO's analyses suggest that pipelines are excessive at other missions and overseas offices. The analyses indicated that (1) 28 percent of the other missions had over 3 years of funding in their pipelines and (2) about 9 percent of the funds in the pipeline at other missions ($417 million) was obligated in fiscal year 1984 or earlier.

Recent legislation requires AID to deobligate some funds in its pipeline. Public Law 101-510, section 1405, enacted on November 5, 1990, requires that appropriations that are available for a definite period be cancelled 5 years after the end of the last year in which they were available. This legislation requires AID to deobligate funds in the pipeline appropriated prior to fiscal year 1987 but does not apply to certain AID funds appropriated after fiscal year 1986. Beginning with fiscal year 1987, AID's appropriation acts have provided for certain foreign assistance funds to be converted to no-year appropriations and thus available for an indefinite period once obligated.

AID guidance states that missions should deobligate funds in projects that are 9 months beyond the project completion date and cannot be justified. At the six missions, GAO found that $8 million remained in such projects, in some instances because missions had waited over 2 years for final charges.

Overstated Funding Requirements

AID missions justify their annual budget requests to Congress based on spending plans in AID's Congressional Budget Presentation. Of the 44 projects with excess funds in the pipeline, 22 had excesses primarily because project officers were unrealistic about annual spending needs or deliberately overstated them. In some cases, projects were too complex to be implemented on schedule, causing obligated funds to build in the pipeline. In other cases, funding needs were overstated to obligate funds up-front and reduce the risks of not receiving funding later.

Limited Use of Deobligation Authority

Although AID has statutory authority to deobligate funds from projects with excess funds and reobligate them, it has deobligated only about 1 to 2 percent of the pipeline each year since 1984. Considering that GAO found 11 percent excess funds at the six missions, and nearly $700 million obligated in fiscal year 1984 or earlier, this authority appears underutilized. According to AID officials, a major reason missions infrequently deobligate funds is because deobligations, unless specifically authorized in the project agreement, must be agreed to by the host government. AID encourages such agreements to include a standard provision allowing AID to unilaterally terminate projects, but does not require a standard provision allowing partial deobligation.

Performance Budgeting

According to AID, performance budgeting rewards good performance and will help more effectively use the pipeline. AID believes that since country performance will be monitored each year, missions have an added incentive to improve their programs. Since AID has recently introduced performance budgeting, it is too soon to provide an evaluation of its impact.

Recommendations

GAO recommends that the Administrator, AID,

- review the justifications for not deobligating funds in projects that are more than 9 months beyond the completion of activities, and deobligate the funds that cannot be adequately justified;

- require each AID mission and office to identify excess funds in the pipeline at the end of each fiscal year, provide a rationale for the excess, and direct the mission to take necessary steps to deobligate the funds if the rationale is not consistent with AID's guidance; and
- require that future AID project and program agreements contain a standard provision stating the conditions under which AID could unilaterally deobligate certain assistance funds. U.S. national interest or political considerations may affect AID's actual use of this management tool; nevertheless, a standard provision would provide leverage to move projects or programs in the right direction.

Agency Comments and GAO's Evaluation

AID generally agreed with GAO's report and recommendations. AID observed, however, that mission directors in the field are best able to assess whether justifications are valid for not deobligating excess funds in the pipeline. GAO agrees that mission directors are best able to provide a rationale for excess funds in the pipeline, but believes it would be inappropriate for missions to justify the excess funds and judge the validity of the justification.

AID also commented that it already encourages missions to include a provision in project agreements for unilateral deobligation of funds. GAO notes that AID's guidance encourages but does not require missions to include a standard provision in project agreements allowing AID to unilaterally terminate projects, but not deobligate funds associated with ongoing projects. GAO believes that a required standard provision allowing for unilateral deobligations if projects are not meeting certain conditions during implementation would give AID more flexibility to effectively use U.S. assistance rather than terminate projects and programs.

AID indicated that although it has made progress during the past 2 years in reducing the aggregate pipeline, in its opinion, country earmarking and functional accounts are major contributors to pipeline buildup. GAO's analysis confirms that these factors contribute to funds remaining obligated but unspent for long periods; however, GAO believes its recommendations will help AID manage these funds more effectively.

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Abbreviations

AID	Agency for International Development
GAO	General Accounting Office
OMB	Office of Management and Budget

Introduction

At the end of fiscal year 1989, the Agency for International Development (AID) carried over to fiscal year 1990 $8.6 billion that was obligated to foreign governments for development assistance and economic support. This unexpended balance of obligations is called the pipeline and together with AID's annual appropriation makes up the bulk of funds available to AID for its projects and programs. Congress was concerned and requested us to examine whether AID was managing its pipeline effectively.

The Congressional Budget and AID's Pipeline

Each January, AID submits to Congress a proposed budget for the next fiscal year (AID's Congressional Budget Presentation). The presentation details assistance provided by over 80 AID offices and missions and requests an amount based primarily on estimates of how much the missions need to continue implementing the assistance projects and programs specified. Congress examines AID's budget request and subsequently passes an appropriation act or continuing resolution providing funds for the agency.

The annual appropriation act provides funds for two major types of foreign assistance programs that AID administers—development assistance and economic support. Development assistance funds are generally used to implement specific development projects, such as immunizing children for measles or providing bilingual textbooks for primary education. Economic support funds are used for some projects, but primarily to help recipient governments cope with balance of payments, pay for commodity imports, and undertake policy reforms such as holding elections. The act further establishes (1) the amount of development assistance that can be used for specific activities such as health or agriculture (functional account requirements) and (2) the minimum levels of economic support funds for specified countries such as Egypt and Israel (country earmarks).

Projects and programs often have both a pipeline and a mortgage. The pipeline is the difference between the funds that AID has obligated for these activities and the amount it has actually spent to implement them. Because projects and programs generally take place over a number of years, AID does not always fund their total cost up-front but may fund them incrementally. The amount of future appropriations that AID needs to complete a project or program is termed the "mortgage." AID tries to balance between having too large a pipeline or too large a mortgage. Too large a pipeline ties up appropriated funds in projects that will not need the money for years. Too large a mortgage creates potential problems in paying for all the projects when they require funds in the future.

AID's Organization for Managing and Budgeting Country Programs

AID's three geographic bureaus—Africa; Asia, Near East, and Europe; and Latin America and the Caribbean—are located in Washington, D.C., and formulate the country programs in their region.[1] However, AID's overseas offices and missions are the line units that actually manage the projects and their pipelines. To manage the projects, the directors of the overseas offices and missions are granted delegations of authority under which they can authorize projects costing up to $20 million and lasting up to 10 years and authorize amendments increasing the total cost of a project up to $30 million.

Although mission directors have considerable authority under their delegations, AID/Washington still makes key decisions in formulating the annual budget. For example, AID/Washington sets each mission's funding level. Within the funding level, the mission must develop detailed budgets, containing the estimated expenditures and funding needs for each project and program for the coming year.

AID's Bureau for Policy and Program Coordination also provides forward funding guidelines to the missions. The guidelines specify how much funding missions can obligate for their projects and try to balance between having too much in the pipeline and not enough to pay for future activities. The current guidance limits pipelines for ongoing projects to 12 months of planned expenditures; however, earlier guidance allowed project pipelines to contain over 18 months of future funding. Current guidance also allows full up-front funding for projects under $2 million and participant training. Funding for construction may also exceed 1 year of forward funding.

Based on this guidance, the missions complete their draft budgets and submit them to their geographic bureaus. The bureaus review and revise the country budgets, consolidate them into bureau budgets, and submit them to the Bureau for Policy and Program Coordination. The Bureau consolidates the budgets into the agency budget, which is reviewed and revised by the AID Administrator and the Office of Management and Budget (OMB), and then presented to Congress.

[1] As of fiscal year 1991, the Bureau for Asia, Near East, and Europe and the Bureau for Private Enterprise were reorganized into (1) the Bureau for Asia and Private Enterprise and (2) the Bureau for Europe and Near East.

U.S. Assistance and Pipeline in World Perspective

Many donors, in addition to the United States, provide economic assistance to developing countries. This creates the international context within which AID manages its assistance funds and pipeline. Official development assistance amounted to about $51 billion in 1988.[2] Of this amount, the United States contributed about $7.5 billion or 15 percent of the total. As table 1.1 shows, many of the largest recipients of U.S. assistance received considerable funds from other sources.

Table 1.1: Official Development Assistance (1988)

Dollars in millions

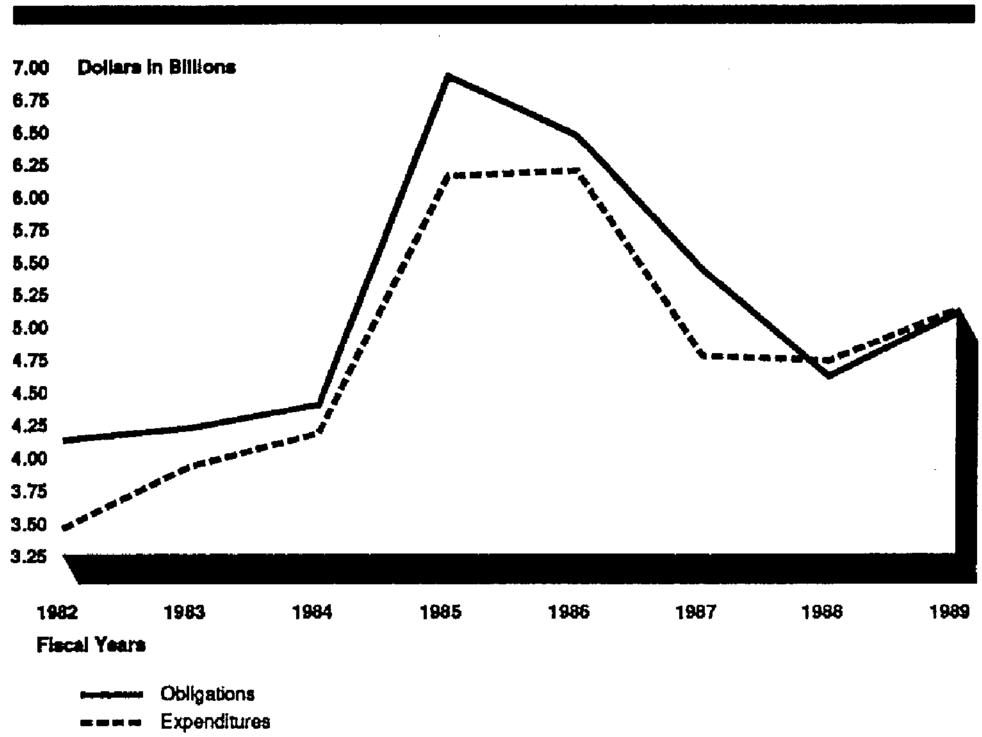
	Donors			Percent
Recipient country	**U.S.**	**Other**	**Total**	**U.S.**
Israel	$1,225	$127	$1,352	91
Egypt	862	875	1,737	50
Pakistan	403	1,225	1,628	25
India	200	2,433	2,633	8
Honduras	158	179	337	47
Philippines	140	880	1,020	14
Guatemala	137	110	247	55
Kenya	55	811	866	6
Others	4,304	36,895	41,199	10
Total	**$7,484**	**$43,535**	**$51,019**	**15**

Source: Geographical Distribution of Financial Flows to Developing Countries (OECD, 1990). Amounts are total gross disbursements.

For fiscal year 1988, AID estimated that development assistance and economic support funds accounted for about 66 percent of all U.S. official development assistance. The remaining 34 percent was made up primarily of food aid under Public Law 480 and funding to multilateral organizations such as the World Bank. Between fiscal years 1982 and 1989 AID obligated about $41 billion in development assistance and economic support funds for its projects and programs and spent about $38 billion, adding nearly $3 billion to the pipeline during this period. As figure 1.1 illustrates, expenditures each year paralleled the increase or decrease in obligations, but were at an overall lower level until 1988.

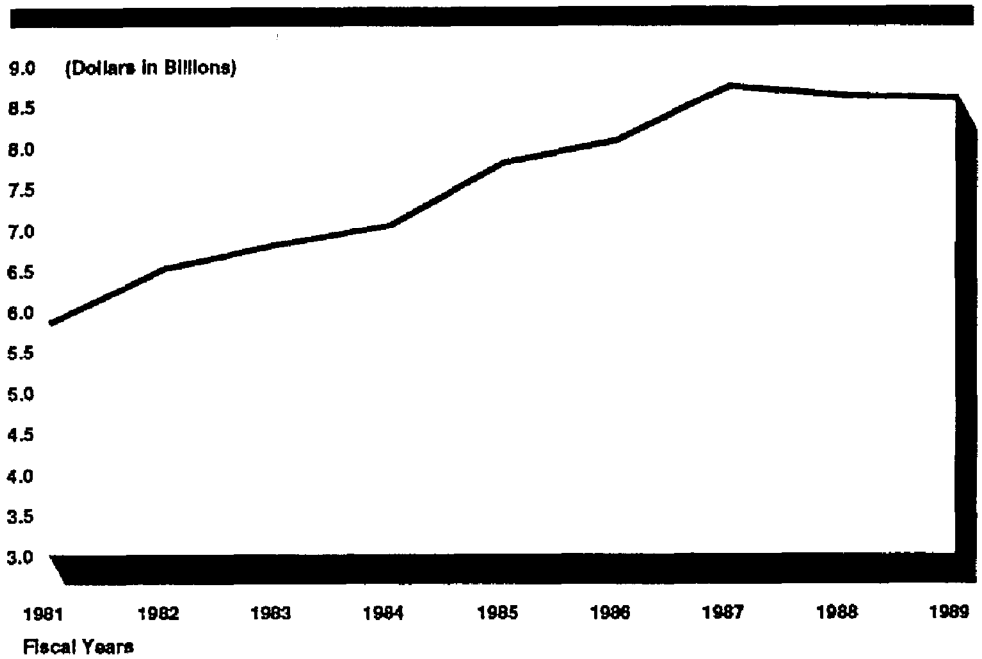
[2] Official development assistance, the basic index of foreign economic assistance developed by the Organization for Economic Cooperation and Development, is defined as official government flows of resources, such as development assistance and economic support funds, to developing countries and multilateral institutions. We use 1988 data because it was the most currently available information from the Organization for Economic Cooperation and Development.

Figure 1.1: Obligations and Expenditures
(Fiscal Years 1982 Through 1989)



The gaps between the obligation and expenditure lines in figure 1.1 represent additions to the pipeline, which cumulated over time. As shown in figure 1.2, AID's total pipeline at the end of fiscal year 1989 was about $8.6 billion, having increased from about $5.8 billion at the end of fiscal year 1981.

Figure 1.2: AID's Pipeline (Fiscal Years 1981 Through 1989)



AID's overall pipeline is made up of the individual project and program pipelines at the Agency's missions and offices. The missions with the largest pipelines at the end of fiscal year 1989 were in Egypt, Pakistan, El Salvador, and the Philippines. Table 1.2 lists all countries with pipelines greater than $200 million, as well as the countries we visited.

Table 1.2: Country Pipelines (As of September 30, 1989)

Dollars in thousands

Country	Pipeline	Fiscal year 1989 obligations[b]
Egypt[a]	$2,335,859	$793,805
Pakistan[a]	673,589	265,000
Philippines[a]	427,427	326,135
El Salvador	357,406	252,286
India	227,075	22,108
Indonesia	216,585	46,432
Bangladesh	201,019	68,368
Kenya[a]	133,209	54,317
Guatemala[a]	129,039	113,352
Honduras[a]	122,929	52,617

[a]Countries visited during this study

[b]Net obligations after deobligation

Objectives, Scope, and Methodology

The Chairmen, House Committee on Foreign Affairs and the Subcommittees on Europe and the Middle East and International Economic Policy and Trade, House Committee on Foreign Affairs, requested that we (1) determine whether AID's pipeline of unexpended funds exceeds the amount needed to effectively carry out development projects and programs, (2) if the pipeline is excessive, determine what factors contributed to the excess, and (3) examine actions that AID has taken that might help use the funds in the pipeline more effectively.

We reviewed AID guidance and regulations on the pipeline and discussed policies and procedures for managing the pipeline with AID officials in Washington, D.C, and at the AID missions in Egypt, Guatemala, Honduras, Kenya, Pakistan, and the Philippines.

These countries represented each of AID's geographic regions, accounted for 45 percent of the pipeline as of fiscal year 1989, and included both earmarked and non-earmarked countries. Of these six countries Egypt, Pakistan, and the Philippines were earmarked to receive economic support or other funds in fiscal year 1990. While in the six countries, we interviewed AID and State Department officials, including ambassadors, about the U.S. assistance programs. We also interviewed host government officials in each country and officials of the World Bank in Washington, D.C., and officials of the Asian Development Bank in the Philippines.

To determine whether the pipeline exceeded the amount necessary to carry out AID projects, we selected a sample of 103 projects at the six missions and analyzed their pipelines. The projects accounted for 68 to 97 percent of the funds in these missions' pipelines at the end of fiscal year 1989 and accounted for about one-third of AID's total pipeline at this time ($2.8 billion out of $8.6 billion). We cannot project results beyond the sample. We focused on the fiscal year 1989 pipeline because complete information for fiscal year 1990 was unavailable at the time of our review. To ensure consistent calculations for all projects, we used a standardized data collection instrument and standard calculation procedures, as described in appendix I.

As criteria for what was excess, we used AID's fiscal year 1992 forward funding guidance, except that we allowed up to 2 years of forward funding for all activities instead of 1 year. We allowed 2 years of forward funding because the projects and programs we examined were covered by prior AID guidance, which permitted over 18 months of forward funding. Some activities may have sound reasons for exceeding 2 years of forward funding; however, we considered funding above this amount to be excess.

To provide an overall perspective on the pipeline, we obtained and analyzed the AID data base used to report on all AID projects for congressional budget hearings. We reviewed the quality controls that AID/Washington uses to ensure the accuracy of this data and conducted selected checks of the data against mission controller records. We believe the overall data is reliable enough to support general findings on AID's pipeline.

To determine the factors contributing to excess pipelines, we discussed each of the 103 sample projects with the relevant project officers and examined the project files, implementation reviews, and relevant cables. We used a uniform data collection instrument to determine the reasons for project delays to ensure consistency in our findings.

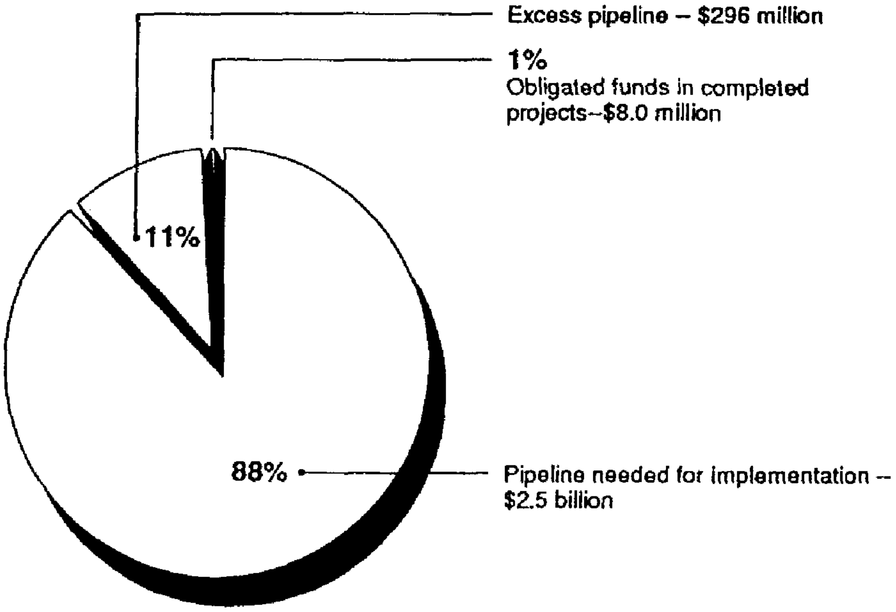
In reviewing actions AID has taken that might help use the pipeline more effectively, we held a discussion panel on the pipeline in May 1990 with AID officials from each geographic bureau and an OMB official responsible for reviewing AID's budget requests. We also discussed the actions with officials at each of the missions we visited and followed up with individuals on the discussion panel about suggestions from the missions.

We performed our review from May to December 1990 in accordance with generally accepted government auditing standards.

AID's Pipeline Contains Excess Funding

Our review showed that at least $296 million (11 percent) of the funds in the pipeline for the six countries we visited was excess. Our estimate of excess funding allowed 2 years of planned spending for projects and programs plus full up-front funding for construction and participant training. AID guidance uses 1-year of planned spending as its criteria for ongoing activities. About 88 percent of the funds were needed to maintain project and program activities for 2 years, and 1 percent was obligated for projects that had been completed at least 9 months before our site visits. This is illustrated in figure 2.1.

Figure 2.1: Pipeline at Six Missions (As of September 30, 1989)



Note: Pipeline for GAO sample projects

Our analysis of overall AID data suggests that pipelines at missions other than the six we visited are also excessive. About 28 percent of the other overseas AID missions and offices had pipelines exceeding 3 years of spending at their historical expenditure rates. These missions differed from our sample missions in that most of the funding in their pipeline was development assistance. Most of the funding in our sample missions' pipeline was economic support, which ordinarily disburses more rapidly than development assistance. In addition, about 9 percent ($417 million) of the pipeline at the other missions was originally obligated in fiscal year 1984 or earlier, indicating that these funds had not been spent after at least 5 years.

Pipelines at Six Missions Are Excessive

Each of the six missions we visited had more funds in the pipeline for the projects we examined than the missions planned to spend in the next 2 years, even after allowing full funding for construction and participant training activities. In all, we found that 44 of the 103 sample projects had excess funds totaling $296.2 million (11 percent of the pipeline). Categorized by mission, the percentage of excess funding ranged from 5 to 21 percent of the pipeline. Although the overall percentage of excess funds for the sample projects is relatively small, the dollar amount is significant. Table 2.1 shows the number of projects with excess pipelines and the amounts that were excessive at each mission.

Table 2.1: Summary of Sample Projects

Dollars in thousands

	Projects		Pipeline		
	Total	Exceeds criteria	Total pipeline	Exceeds criteria	Excess percent
Egypt	12	8	$1,605,959	$197,925	12
Guatemala	16	8	110,912	23,192	21
Honduras	26	9	118,797	6,634	6
Kenya	10	6	112,374	19,962	18
Pakistan	18	4	557,350	26,254	5
Philippines	21	9	290,194	22,202	8
Total	**103**	**44**	**$2,795,586**	**$296,169**	**11**

Note: Estimates of excess are based on the pipeline as of September 30, 1989, and our review of planned spending in fiscal years 1990 and 1991 for each of the 104 projects.

The 44 projects with excess funding had a total of $1.2 billion in the pipeline, with $399 million in development assistance and the remainder in economic support funds. The development assistance funds obligated for these projects were budgeted for activities covering various functional accounts and the development fund for Africa. Half of the development assistance was budgeted for agriculture and rural development, 20 percent was budgeted for the development fund for Africa, and 9 percent was for child survival activities. Functional areas, including private sector development, population, health, and education, each accounted for 4 to 7 percent of the remaining development assistance funds in the pipeline of the projects with excess.

Excess May Be Understated

The amount of excess funding in the pipeline may be higher than we estimated because our calculations of forward funding are based on mission estimates of planned spending. Mission estimates tend to be overstated because (1) project officers in some cases are too optimistic about how quickly they can implement projects and spend the funding and (2) project officers sometimes overstate spending schedules to obligate as much as possible up-front. We discuss these situations in chapter 3.

In addition, the amount of excess that we calculated allows 2 years of spending for ongoing projects rather than the 1 year stated in the current forward funding guidelines. If we held all projects in our sample to 1 year of planned expenditures, the excess funds in the pipeline would amount to $476 million, or 17 percent.

A Small Amount of Pipeline Is in Terminated Projects

An additional amount of excess pipeline was in completed projects whose funding had not been deobligated. AID deobligation guidance states that missions should deobligate project funds that cannot be justified and have reached their terminal distribution date—9 months beyond the project activities completion date. At the six missions we visited, about $8 million (less than 1 percent of the pipeline at these missions) was in projects that had passed their terminal date. The AID mission controllers cited several reasons for not deobligating the funds. In several cases, they told us that they were waiting to deobligate the remaining balances, pending receipt of the final bill from contractors or final records of charges from AID/Washington. For some of these cases, they had waited over 2 years to deobligate the funds. The controller in the Philippines also said that his office was understaffed, and therefore he had to concentrate on higher priorities than deobligating funds from completed projects.

AID's Inspector General and we have previously reported vulnerabilities in mission systems that account for and control unliquidated obligations in completed contracts and projects. These reports recommended that AID take steps to ensure that unliquidated obligations be properly validated or deobligated.[1] These steps include reviewing all unliquidated obligations whose terminal disbursement date had expired, and developing a plan that would eliminate the backlog of completed contracts that had not been closed out.

[1] Audit Report on A.I.D.'s Compliance with Federal Requirements for the Review and Certification of Unliquidated Obligation Amounts (AID Inspector General/Audit Report No. 9-000-89-007, July 1989) and Foreign Economic Assistance: Better Controls Needed Over Property Accountability and Contract Close Outs (GAO/NSIAD-90-67, Jan. 22, 1990).

Historical Expenditure Rates Suggest Other Missions Have Excess Pipelines

Our project-by-project examination at six missions showed that 11 percent of the pipeline was excessive. Although this percent cannot be projected to other missions, our analyses of overall AID data on (1) actual mission obligation and spending rates in the past and (2) the age of funds in the pipeline suggest that missions and overseas offices other than the ones we visited also have excess pipelines.

Other Missions Have Over 3 Years Spending in Their Pipelines

To determine if other missions and offices might have excess funding, we divided their pipelines by their historical rates of expenditure.[2] Based on this analysis, 24 of 85 missions and offices (about 28 percent) had over 3 years of funding in their pipelines at the end of fiscal year 1989. Also, 23 offices and missions had 2 to 3 years of funding in their pipelines, while 38 had under 2 years. Table 2.2 shows the number of missions in each category of expenditure time, along with the amount in their pipelines at the end of fiscal year 1989.

Table 2.2: Years to Spend Non-Case Study Missions' Pipelines

Dollars in millions

Years spending in the pipeline	Number of missions and offices	Funds in pipeline
Over 3	24	$1,785
Between 2 and 3	23	1,037
Under 2	38	1,473
Total	**85**	**$4,295**

Note: Years of spending in the pipeline is based on funds in a mission's pipeline as of September 30, 1989, divided by that mission's average annual expenditures in fiscal years 1987 through 1989.

The 24 missions with over 3 years spending in the pipeline were located in all of AID's geographic regions. About half the missions were in Africa (11 of 24), one-third were in Asia or the Near East (8), and the remainder were in Latin America (5). The amount in these missions' pipelines ranged from $85,000 to $227 million, with seven of the missions having pipelines exceeding $100 million. The missions differed from our sample missions in the predominant type of funding in the pipeline. Most of the funding in our sample missions' pipeline was economic support funds, which ordinarily disburses more rapidly than development assistance funds. Of the nearly $1.8 billion in the pipeline of the 24 missions, about $1.5 billion (84 percent) was development assistance, while nearly $282 million was economic support.

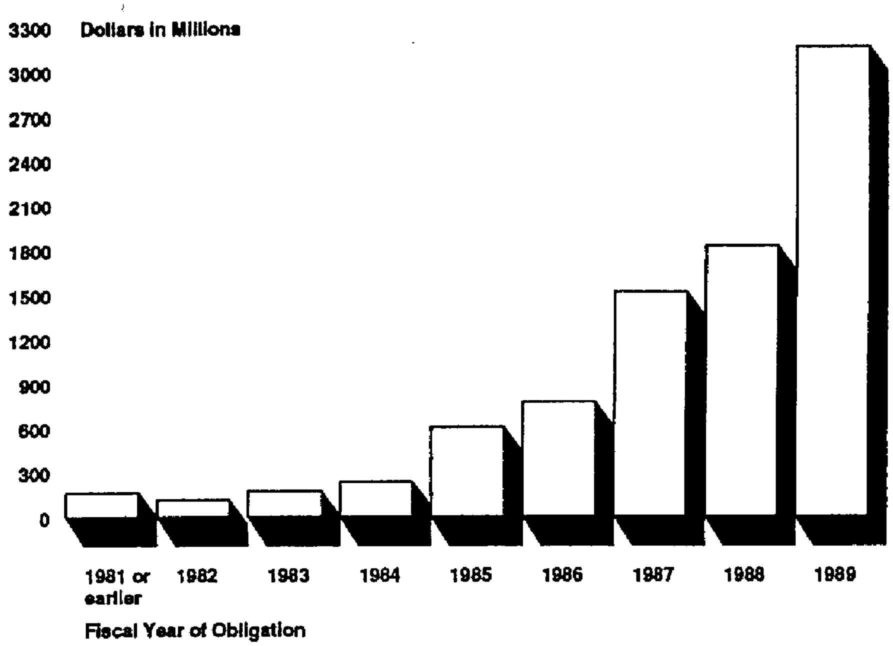
[2]Because spending may vary greatly each year, AID suggested that we use a mission's most recent 3-year annual average as the expenditure rate.

Our aggregate calculation of years to spend the pipeline provides an indication of whether a mission has an excess pipeline. However, this is a limited indicator because the calculation is based on (1) a mission's past track record rather than current financing and spending plans and (2) mission aggregate spending that does not account for individual project excesses or allowable forward funding. For example, based on our aggregate calculation, the Philippines had 3.4 years of spending in the pipeline, Kenya had 3.2 years, Egypt had 3.1 years, and Pakistan had 2.9. This is consistent with our detailed study of individual projects, which showed that these missions had excess pipelines. However, while our detailed analysis showed that both Guatemala and Honduras had excess funding, our aggregate analysis of expenditure rates showed each had only about 1 year of funding in its pipeline. Our aggregate analysis did not indicate the excess because economic support funds for both countries had dramatically increased in the past few years and were disbursed rapidly through cash transfers. This change in the structure of mission spending masked the excess amounts in individual projects.

Some Pipeline Funds Were Obligated 8 Years Ago

The "age" of funds in the pipeline is another indication of potential excesses. At the end of fiscal year 1989, over $77 million in the pipelines of missions and offices other than the six we visited was obligated in fiscal year 1981 or earlier, indicating that these funds had not been spent after 8 years or longer. About $417 million, or 9 percent, of the pipeline from the non-case study missions had been obligated in fiscal year 1984 or earlier. Including the missions we visited, AID's total pipeline contained about $700 million that had been obligated in the fiscal year 1984 or earlier. Figure 2.2 provides a breakdown of all funds in the pipeline by their fiscal year of obligation.

Figure 2.2: Age of Funds in the Pipeline



Legislation enacted on November 5, 1990, will require that AID deobligate some of the funds in the pipeline. Public Law 101-510, section 1405, amended subchapter IV of 31 U.S.C. 15, to prescribe new rules for determining the availability of appropriation and fund balances and for closing appropriation accounts. The legislation provides that appropriation accounts that are available for a definite period must be closed 5 years after the end of the year in which the funds were available. Any remaining balance in the account (whether obligated or unobligated) is to be cancelled and no longer available for any purpose. The legislation also provides that any balance in M accounts[3] for more than 5 years (accounts that expired at the end of fiscal year 1983 and earlier) must be deobligated and withdrawn on March 6, 1991, except where the agency has documentary evidence that a payment from the account must be made by May 5, 1991, or where the obligation supports severance pay for foreign national employees. The legislation further provides that as of September 30, 1993, all obligated balances in M accounts that are not disbursed would be cancelled.

[3]M accounts are successor accounts into which obligated balances under an appropriation were transferred at the end of the second full fiscal year following expiration and were merged with obligated balances from prior appropriations for the same purposes. The balance in the M account remains available for the payment of obligations and liabilities charged or chargeable to the expired appropriations from which the M account was derived. Under Public Law 101-510, section 1405, no new M accounts will be established and all existing M accounts will be phased out.

Although this legislation essentially requires agencies to cancel any funds not spent prior to the end of the fifth year after their period of availability for obligation has expired, it does not apply to some AID funds appropriated after fiscal year 1986. Beginning with fiscal year 1987, AID's annual appropriation acts have contained a proviso specifying that funds appropriated for the purposes of chapter 1 of part I and chapter 4 of part II of the Foreign Assistance Act of 1961, as amended, shall remain available until expended if such funds are initially obligated during their period of availability. The phrase "shall remain available until expended" is the generally accepted language used to establish a no-year appropriation. By combining this phrase with the requirement that the funds involved must be initially obligated during the period of availability to gain no-year status, this proviso allows development assistance and economic support funds appropriated for fiscal years 1987 through 1991, to be converted to no-year appropriations once obligated. As no-year appropriations, these funds remain available for expenditure, without any fiscal year limitations.

The provisions in Public Law 101-510 requiring appropriation accounts to be closed 5 years after their period of availability has expired applies only to fixed appropriation accounts and does not apply to no-year funds. Accordingly, based on the appropriations proviso, development assistance and economic support funds appropriated for fiscal years 1987 through 1991 that were obligated during their periods of availability are not covered by Public Law 101-510. Furthermore, if a similar proviso is included in future AID appropriations, development assistance and economic support funds will remain exempt from the 5-year limitation if they are initially obligated during the period of availability.

AID Perspectives on the Pipeline

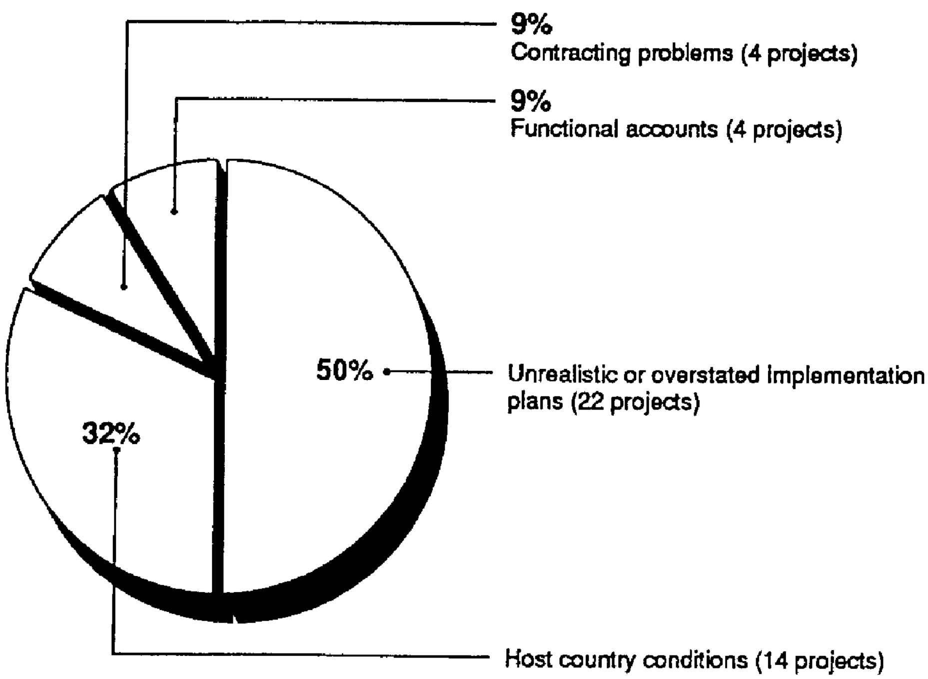
Missions are generally more concerned with how well their projects are meeting key goals and objectives, with attention to the size of the pipeline being a lesser consideration in managing projects. For example, according to Pakistan mission officials, the pipeline is an indicator of progress, but the important issues are achieving political, economic, and social reforms. Similarly, in the Philippines mission officials believe emphasis should be on the improvement of people's lives. Even though we agree that project results are crucial, managing projects and managing pipelines are not mutually exclusive activities and excess funds in the pipeline do not help achieve project goals and may be counterproductive to achieving AID's goals. AID/Washington Annual Budget Submission Guidance is explicit on this point:

> Resources in pipelines generally are unproductive in advancing the mission's or office's goals. Every effort must be made to use all available funding to support activities that will work actively towards solving priority development problems. And that requires leaner pipelines.

Unrealistic Implementation Planning Is the Major Factor Contributing to Excess Pipelines

Of the 44 sample projects with excess funds, half had excesses primarily because of unrealistic or overstated implementation plans. Other projects had excess funding primarily because circumstances in the host country, such as changes of government, delayed implementation. AID contracting problems or limits on programming funds among functional accounts[1] delayed other projects, causing pipelines to build. Although AID cannot control some situations that lead to excess funds building up in the pipeline, AID can deobligate funds from slow or stalled projects and, if needed, reobligate them. AID, however, has made limited use of its deobligation/reobligation authority to manage the pipeline. According to mission officials, a major reason they do not use their authority more often is because host governments must agree to deobligations from ongoing projects, which is a sensitive issue with the host country. Figure 3.1 illustrates the factors contributing to excess funding in our sample projects.

Figure 3.1: Primary Reasons for Excess Pipelines



Note: GAO sample projects with excess pipelines

[1]Development assistance funds are appropriated under specified accounts, such as health, and cannot be used for another purpose such as agriculture. Missions that receive more funds in one account than needed cannot shift the funding to an account that needs funds.

Extent of Overestimates Considerable

In AID's Congressional Budget Presentation, AID missions justify their annual budgets to Congress through their spending plans for project and program activity. AID missions tend to overstate these spending needs, which leads directly to excess pipelines. For the 44 projects with excess funds in the pipeline for which we could determine planned and actual expenditures, project officers developed 192 annual spending plans and overestimated 157 of them during the projects' first 7 years. The overestimates were considerable. For example, during their second year of operations, about 66 percent of the projects had plans that overestimated spending by at least 100 percent, with some of the overestimates 600 percent or more above actual expenditures. During the third year of operations, about 49 percent of the projects had annual spending plans that overestimated spending by 100 percent or more.

Unrealistic or Overstated Plans Contribute to Excess Pipelines

Unrealistic or overstated implementation planning is a major underlying cause of the overestimates that lead to excess pipelines. According to some AID officials, project officers in some cases are overly optimistic or unrealistic in planning implementation and expenditure schedules. AID officials also stated that in other cases project officers are not only unrealistic, but also deliberately overstate spending needs so that they can obligate as much as possible up-front.[2] This reduces the project mortgage and the risk of not getting the funds needed to complete their projects. Several project officers at the missions confirmed that they were concerned about receiving future funds and tried to obligate as much up-front funding as possible. The AID Handbook also warns project officers that their projects should be adequately funded or the projects may suffer extensive delays or be thwarted from generating benefits.

Missions provide other incentives that contribute to excessive pipelines. According to some AID/Washington and mission officials, missions evaluate project officers based more on how successful they are in getting projects approved and funds obligated, rather than how well they implement projects in the field. Missions are also under pressure to obligate all funds that are appropriated. Under the terms of its annual appropriation act, AID must obligate development assistance funds within the year they are appropriated or they will no longer be available, and economic support funds must be obligated within 2 years. According to a

[2]To obligate funds, AID requires that a project agreement or other valid obligating document be completed. The project agreement must be signed by authorized AID officials and authorized host government officials and normally specifies the amount of assistance to be provided and the conditions under which the amount is provided (e.g., full or incremental funding).

mission official, no mission wants to explain why it had to return funds that it requested in the first place.

Based on reviews of project files and interviews with project officers, we found that unrealistic or overstated implementation plans were the primary reason that 22 of 44 projects had excess funds in the pipeline. These 22 projects had a pipeline of $823 million as of September 30, 1989 (68 percent of the $1.2-billion pipeline for the projects with excess funding).

One of these cases helps illustrate unrealistic planning. A project officer in Guatemala, whose rural development project had been extended for 5 years, said that the project implementation plans were unrealistic and could not possibly be carried out in the planned time frame, causing excess funds to accumulate in the pipeline. The plans called for constructing an irrigation network in 10 months, but after 10 months the contractors could only finish planning the construction. He stressed that construction on this scale was not possible within the 10-month period. In addition, the original planner had little idea of problems in the local environment and did not complete data collection in the area. Several other examples also illustrate unrealistic or overstated implementation planning.

- In Kenya a project to expand private enterprise had $5 million excess in its pipeline primarily as a result of project delays that occurred because the implementation plans did not anticipate the need to "sell" the concept of venture capital and entrepreneurship in an African country.
- In the Philippines the amount in the pipeline increased when a project to help the government institutionalize a program for Acquired Immune Deficiency Syndrome had to be extended. According to the project officer, it was unrealistic to think a project dealing with this disease in a country like the Philippines could be carried out in 2 years.

In 10 of the 22 projects, we found evidence that deliberate overobligation of funds was either a primary or a contributing cause of the excess pipelines. In these cases, project officers stated that considerable funding was obligated up-front either to demonstrate that AID was committed to the project or to reduce the mission's concern about obtaining further funding. For example, on a water project in Egypt, the project officer said that the mission obligated considerable up-front funds for the project so that contractors would know funds were available and would not be cut off if Egypt became less favored. In a justice improvement project in Guatemala, the project officer told us that the mission obligated as much as possible for the project because of concerns that funding might be reduced for political reasons. According to a project officer in Kenya, uncertainty about future funding for his agricultural research project contributed to obligating excess funds for his project. He believed this was a factor in determining obligations for all projects.

Host Country Conditions Contribute to Excess Pipelines

A total of 14 sample projects with a pipeline of $158 million at the end of fiscal year 1989 had excessive funding primarily because (1) host countries failed to meet the conditions they agreed to or (2) political or economic conditions in the country changed. Although AID missions could not control these situations, AID/Washington and other mission officials believed that project officers often did not adequately anticipate the delays and plan a realistic implementation schedule.

AID normally requires host governments to provide cost sharing for the projects and programs and, if appropriate, satisfy certain conditions before the United States disburses funds. However, a failure of the host governments to provide the support or meet the conditions led to seven projects being delayed and excess funds accumulating in the pipeline. For example, in Pakistan a child survival project was delayed primarily because the government did not provide staff to complete their planning and approval document for the project. AID finally hired a consultant to assist on the project. In the Philippines activity on a project to sell government-owned corporations to the private sector was halted because a government agency refused to allow outside auditors access to records on the value of the assets.

Projects take place in a dynamic environment, and changes that cannot easily be predicted will force project officers to replan and reschedule projects. Political instability, fluctuations in exchange rates, and other unpredictable conditions are the primary reasons that six projects were extended or had excess pipelines. For example:

- In the Philippines during political upheavals in 1986 and 1987, a virtually complete turnover in provincial governors and mayors delayed a project to strengthen municipal governments. As a result of the political situation, disbursement of project funds was delayed, causing the pipeline to build up.
- In Guatemala the government devalued the local currency relative to the U.S. dollar. Because of the devaluation, the project officer for a higher education project paid less than planned for textbooks and other locally

purchased goods. With the unanticipated surplus, he was able to expand project activities, but the project was extended by 2 years.

AID Contracting Problems Contribute to Excess Pipelines

In October 1990[3] we reported that the major obstacle to an efficient contracting system was inadequate procurement management in the overseas missions. Among the problems we found were (1) procurement plans did not adequately address the choice of using a contract awarded by AID rather than the host country and (2) project and program officers are inadequately trained in procurement-related issues.

Of the 44 projects with excess funds in the pipeline, 4 were caused primarily by problems in mission contracting and procurement. These four projects had a total pipeline of $186 million at the end of fiscal year 1989 and accounted for 15 percent of the pipeline for the projects with excesses. Although the specific contracting problems differed, two were similar to the problems cited in our previous report. For example, in Egypt implementation on a municipal development project was delayed because of a dispute about whether AID or Egypt would award the contract.

Functional Accounts and Earmarks Affect the Pipeline

Spending levels for health, agriculture, or other functional account, as set forth in the appropriation act, may contribute to AID's difficulty in effectively managing the pipeline, but the amount of excess caused by the functional account restrictions was relatively small in our sample. Functional account restrictions were the major factor causing 4 of 44 projects to develop excess funds in the pipeline. These four projects had a total of $46 million in the pipeline at the end of fiscal year 1989—about 4 percent of the $1.2-billion pipeline for the sample projects with excess funding. For example, in the Philippines more funds were obligated for a rural electrification project than it was programmed to use in the first few years. According to the project officer, the mission received more rural development funds than planned. Since the mission thought the rural electrification project could be accelerated, additional rural development funds were placed in the project ahead of schedule and this created an excess pipeline.

According to mission officials in Guatemala, Honduras, and the Philippines, functional account requirements to spend funds for population,

[3]Foreign Assistance: AID Can Improve Its Management of Overseas Contracting (GAO/NSIAD-90-207, Oct. 5, 1990).

rural development, or other specified category of activity hinders them from making the most effective use of their resources. They stated that functional accounts reduce their flexibility and create temporary absorptive capacity problems in specific sectors.

Country Earmarks

Congress also earmarks funding levels for certain countries. Such earmarking may be a factor contributing to excess funds in the pipeline, but we could not determine to what extent. Some AID officials in Washington told us that Egypt, Pakistan, and the Philippines may not be able to effectively use the hundreds of millions of dollars they receive because the governments may not have sufficient administrative and technical resources to carry out the activities. Officials we spoke with at the World Bank and the Asian Development Bank were also concerned about the absorptive capacity of countries that receive high levels of assistance from several donors. A World Bank official said that the large scale of assistance relative to the size and capacity of the countries' economies was a concern.

According to AID and State Department officials in Egypt and the Philippines, however, the host governments generally have the capability to absorb the high levels of support they receive. In Egypt, mission officials said that there were no absorptive capacity problems, but Egypt could not absorb any more project funds in certain sectors, and in the private enterprise sector there were delays because such activities were politically unpopular. The missions in Egypt and the Philippines were also concerned with their own capacity to monitor and oversee projects because they said their staffing levels were too low.

Missions Infrequently Use Deobligation-Reobligation to Reduce Excess Pipelines

According to Standards for Internal Controls in the Federal Government, agencies should ensure that resources are safeguarded from waste and misuse and that costs such as lost opportunities are considered in agency actions. AID's deobligation/reobligation guidance seeks to ensure that the agency effectively uses its resources. The guidance recommends that missions deobligate funds from projects that have been stalled for 2 years or more, are excessively slow in being carried out, or are marginally productive.

We found that AID makes limited use of this authority. In each fiscal year from 1984 through 1989, AID deobligated and reobligated between $102 millon and $189 million (approximately 1 to 2 percent of the total pipeline each year). Although we could not determine how much of the pipeline should be deobligated, the 11 percent of excess funding and the 8 percent of the pipeline that was obligated in fiscal year 1984 or earlier indicate that AID should use this authority more actively. In general, the missions in Kenya, Egypt, Honduras, and Guatemala normally deobligate funds from projects only after the project completion dates have lapsed.

According to AID officials, a major reason funds are not deobligated more often is because the host government must agree to the deobligation since this action reduces the amount agreed to in a bilateral project or program agreement. Some host governments are reluctant to authorize deobligations since the mission can retain the funds only if it can reobligate them for the same purpose specified by the original earmark or functional account. If the mission does not have an activity that both matches the earmark and needs the funds, the country may lose the funds. Deobligations thus raise sensitive issues with the host government about reductions to their assistance level.

Deobligating funds may be a sensitive issue, but it may also be justified for projects that are excessively slow or are not being implemented. In project and program agreements we examined, there were no specific provisions allowing AID to unilaterally deobligate some of the funds obligated for such projects. In Egypt and Kenya, none of the agreements we examined contained a provision allowing AID to unilaterally deobligate funding if the project or program was not being implemented or otherwise not performing. AID encourages but does not require missions to include a standard provision in its agreements allowing them to unilaterally terminate projects. However, once a project agreement is signed with the host government and initial conditions are met, AID believes it cannot partially deobligate funds without the agreement of the host government, unless the mission includes a specific provision in the agreement allowing it to do so.

Despite the constraints on deobligating funds, AID missions in both the Philippines and Pakistan have successfully used this tool. The Philippines mission has deobligated an average of approximately 16 percent of its pipeline each year since fiscal year 1986. According to mission officials in the Philippines, they use this authority to reallocate funds from poor performing projects to better performing ones. They also have obtained informal agreements with the Philippine government to cooperate in deobligating funds from slow-moving projects. In Pakistan U.S. assistance was unavailable during a wheat crop failure during 1987 and 1988, so mission officials deobligated funds from certain projects and reobligated them towards a $100-million wheat purchase. According to Pakistan mission officials, the deobligation/reobligation authority is a valuable tool, but we found no evidence that they had routinely used this authority to manage the pipeline.

AID Actions to More Effectively Use Assistance Resources

To increase the effectiveness of its development assistance resources, AID has recently introduced performance budgeting for nonearmarked countries. As part of performance budgeting, AID has asked Congress to authorize creation of a performance account, in addition to the other functional accounts. Individual missions in earmarked countries have also taken actions to improve the effectiveness of their economic support assistance, but the actions they can take are limited. Potential management risks are involved in using the excess funds in the pipeline to begin new projects.

Performance Budgeting for Nonearmarked Countries

AID has recently introduced a type of performance budgeting system that allocates development assistance funds to nonearmarked countries based on how well host governments adopt policies consistent with U.S. principles, such as fostering open markets or improving human rights. According to AID officials, the Asia and Africa bureaus also plan to use project and program performance as a criteria to determine budgeting levels. Within the performance framework, and after agency review, missions would generally receive funding to maintain their ongoing projects and programs. However, missions in countries that do not demonstrate progress in adopting policy reforms generally would not receive funds to start new activities. According to AID officials, some urgent new activities might be authorized on a case-by-case basis for countries that performed poorly. Countries undertaking policy reforms would receive funds for their ongoing activities and would be awarded funding for new projects.

Under performance budgeting, the amounts potentially available for reallocation among missions would equal the development assistance funds that have in the past been obligated for new activities. As an historical example, the missions and offices in the Latin America and Caribbean Bureau obligated about $290 million for new activities between fiscal years 1987 and 1989. According to AID officials, not all of these new funds would have been available for performance budgeting because poor performing missions might be allowed to start urgent new activities. Table 4.1 is illustrative of funds obligated for new activities in each of these past fiscal years.

Table 4.1: Illustrative Example of Funding for New and Ongoing Development Assistance Activities in Latin America

Dollars in thousands

	Fiscal year		
Obligations for	**1987**	**1988**	**1989**
New activities	$98,841	$73,614	$117,393
Ongoing activities	304,249	266,752	267,890
Total	**$403,090**	**$340,366**	**$385,283**
Percent for new activities	25	22	30

Note: Approximately 5 percent of these funds were earmarked for particular countries and could not be used for performance budgeting.

According to AID, performance budgeting rewards good performance and will help the agency more effectively use the pipeline for three reasons. First, missions with successful programs have strong track records of completing projects and obtaining support from the host government; therefore, these missions are the best candidates to use funds effectively. Second, providing additional funds to countries with good policy frameworks increases the chances that projects will be effective. Third, since mission performance will be monitored each year, missions are provided a regular incentive to strive for improvements in their program.

We identified two key concerns about performance budgeting. First, poorer countries might lose assistance to those slightly better off simply because they cannot afford the administrative and technical resources needed to perform well. Second, where performance budgeting is based only on adopting policies consistent with U.S. principles, AID might not use funds in the pipeline more effectively because project performance is not directly considered.

Since AID implemented performance budgeting on a limited basis beginning in fiscal year 1988, we could not determine if poorer countries are losing assistance to ones that are somewhat better off. In the 2 years the Latin America and Caribbean Bureau has rated countries, the evidence is mixed. Two of the three poorest countries within the Latin America and Caribbean Bureau—Haiti and the Dominican Republic—were rated as poor performers each year. Yet Bolivia, the third poor country, was rated as a high performer in both years.

Some AID officials believed that countries that were good policy performers would also implement projects effectively. However, unless project and program performance are directly built into the criteria for setting assistance levels, AID would not be assured that its assistance resources are being effectively used in carrying out projects. Adopting positive policies may enable a country to more effectively carry out projects and programs, but also checking on actual project implementation would provide further assurance that U.S. assistance was being effectively used.

Creating a Performance Account

Congress appropriates development assistance through functional accounts, which helps ensure that congressional intent is carried out in the foreign assistance program. According to AID officials, AID explored with congressional committees the creation of a performance account from which they could reallocate funds to high performing countries as an incentive to successfully carry out projects and programs. However, Congress retained the traditional functional accounts for fiscal year 1991. Table 4.2 is illustrative of the funding impact on functional accounts in the Latin America and Caribbean Bureau if 5 percent of each functional account were shifted to a performance account.

Table 4.2: Funding Impact of a 5-Percent Performance Account

Dollars in thousands

Functional account	Amount	Percent	Amount with performance account	Percent
Agriculture	$152,243	39.4	$144,631	37.5
Education	77,540	20.1	73,663	19.1
Private sector	64,918	16.8	61,672	16.0
Health	35,441	9.2	33,669	8.7
Population	28,417	7.4	26,996	7.0
Child survival	24,564	6.4	23,336	6.0
AIDS	2,700	0.7	2,565	0.7
Performance	0	0	19,291	5.0
Total	**$385,823**	**100**	**$385,823**	**100**

Note: Obligations in fiscal year 1989 in AID's Bureau for Latin America and the Caribbean. Amounts in the performance column reflect the impact of shifting 5 percent of each functional account to the performance account.

Limits on Using Funds for Earmarked Countries

Although AID can take some actions to more effectively use the economic support funds for earmarked countries, three factors limit the scope of such actions. First, country earmarked funds must be spent only within the specified country and cannot be used for performance budgeting or shifted to fill urgent needs in other countries. Second, country earmarks are intended primarily to achieve political or strategic objectives, and effective resource utilization for economic development purposes is a secondary consideration. Therefore, if a country's earmark is consistently high over several years, the country may not be able to fully use the funding within the time allowed by forward funding guidance, particularly if the funding is for projects that have to be designed, approved, and coordinated with the host government.

Despite limits on AID's flexibility in earmarked countries, individual missions in such countries have used their deobligation-reobligation authority to increase the effectiveness of assistance. For example, as discussed in chapter 3, AID officials in the Philippines have aggressively deobligated funds from slow or stalled projects and reobligated them to quicker moving ones. The AID mission in Pakistan also used the authority to provide funds to the country following a poor wheat harvest.

Potential Impacts of Using Excess Funds for New Projects

If AID aggressively uses performance budgeting and more actively uses its deobligation/reobligation authority, funds would be available for other assistance activities. Some AID officials believed missions would use these funds to increase the number of projects and programs within their country, rather than accept a lower level of funding. This approach might risk authorizing more projects and programs than AID could afford or manage.

According to some AID officials, having too many new projects would effectively tie up most future funding and might even result in a need for more funding than would be available. Based on our analysis, projects and programs spent on average 9 percent of their total authorized funds in the initial year but increase spending in the next several years. If too many new projects were started with the excess funding in the pipeline, missions might be able to fund the initial project costs but might not have enough to complete the projects in the outyears when spending increases.

Although we did not determine how many projects AID can adequately manage, AID officials told us that starting too many new projects might also overload mission staff. Some missions stated that they already have too few staff. In fiscal year 1989, about 1,500 projects and programs were active, and AID had about 4,700 direct hire staff.[1] The ratio of direct hires to projects and programs has remained constant since fiscal year 1987.

[1]We defined active projects as those that had not been terminated and still had at least $10,000 in the pipeline.

Conclusions and Recommendations

AID's pipeline has included hundreds of millions of dollars that exceed 2 years of project and program financing requirements. Although the amount of excess is not a large percentage of AID's pipeline, it is a significant dollar amount, especially in light of federal budget constraints and increased demands for foreign assistance. Since funds in the pipeline that we determined to be excess were not planned for use within 2 years, they represent a lost opportunity for AID to redirect scarce resources to higher priority activities. Alternatively, AID could deobligate the excess and request future appropriations from Congress when needed.

Many factors cause AID to have more funds in the pipeline than it plans to use within 2 years. The overall environment in which AID operates encourages highly optimistic and overstated scheduling of spending rather than encouraging the most effective use of available funding. Both missions and project officers perceive risks if they do not fund as much as possible up-front. In addition, the missions are under pressure to obligate all funding they receive rather than risk losing the funds. Other factors that AID cannot control also contribute to growing pipelines. Unexpected changes in political and economic conditions in the host country, and, to a lesser degree, functional account restrictions and earmarks delay projects and cause funds to accumulate in the pipeline.

AID has recently taken some actions to more efficiently use its assistance resources, such as introducing performance budgeting and adjusting its forward funding guidelines to reduce project pipelines. However, AID has not fully used its authority to deobligate and reobligate excess funds that are in the pipeline. AID does not require that agreements signed with the host country provide AID the flexibility to unilaterally deobligate funds from projects that are excessively slow or failing to meet their objectives. Ideally, AID and the host government should mutually agree to deobligate funds that are not being productively used. However, in some instances, AID has been reluctant to seek or unable to obtain host country concurrence to deobligate such funds. Missions that deobligate funds risk having the funding shifted to other countries with higher priorities. Earmarking funds for specific countries further complicates management of the pipeline. Nevertheless, AID has a responsibility to use federal monies as effectively as possible and to use these funds for the highest priority opportunities.

Recommendations

We recommend that the Administrator, AID,

- review the justifications for not deobligating funds in projects that have passed their terminal date and deobligate the funds that cannot be justified, beginning with the $8 million we identified;
- require all missions and offices to identify excess funds in the pipeline at the end of each fiscal year and provide the rationale as to why this excess exists, and if the rationale is not consistent with AID guidance take the necessary steps with the host government to deobligate the funds; and
- require that future AID project and program agreements contain a standard provision stating the conditions under which AID could unilaterally deobligate certain assistance funds (such as in the case of long delayed projects). U.S. national interest, political considerations, or constraints regarding the reprogramming of earmarked funds, may affect the extent to which AID actually uses this management tool, nevertheless, a standard provision in the agreements would provide leverage to get some projects or programs moving in the right direction.

Agency Comments and Our Evaluation

In general, AID agreed with our report and recommendations. AID observed, however, that mission directors in the field were in the best position to evaluate justifications for not deobligating funds from completed projects and funds that exceeded forward funding guidance. While we agree that missions are in the best position to provide rationales for not deobligating such funds, we believe it would be inappropriate for the mission to then determine the validity of the rationale. Even if AID/Washington would agree that a mission's justifications were valid, such oversight would be appropriate since the Administrator, AID, is ultimately responsible for the effective and efficient use of U.S. assistance funds.

AID agreed with the intent of our third recommendation but stated that current guidance already encourages missions to include a standard provision in project and program agreements allowing unilateral deobligation. We note that AID's standard provision encourages inclusion of a provision for unilateral termination of projects. Our recommendation would require a standard provision or a modification of the existing termination provision, allowing AID to unilaterally deobligate some project funding if the project was not meeting certain conditions during implementation. This would provide AID with more flexibility to correct projects and programs, short of terminating them. AID could still use political discretion in deciding to exercise this option. Moreover, AID guidance currently recommends deobligating funds from projects that are ineffective, and we believe the adoption of our recommendation would give AID an additional management tool to more effectively use U.S. funds.

AID also stated that earmarking and functional accounts contributed significantly to pipeline buildup and should have been highlighted more in our report. Our analysis confirms that earmarking and functional accounts contribute to funds remaining obligated but unspent for long periods. However, the empirical evidence we found suggests that the impact on pipeline from these factors is limited. More importantly, even though earmarking and functional accounts contribute to excess funds in the pipeline, they do not relieve AID of the responsibility to design, implement, and manage assistance programs that are effective and efficient. We believe full implementation of our recommendations will help AID manage U.S. assistance funds more effectively.

AID further commented that in some cases funds in the pipeline may validly exceed a rigid standard of forward funding, for example in the case of participant training. However, AID's own forward funding guidance sets a 1-year standard for the amount that can be in the pipeline. To ensure that we were conservative in our analysis, we allowed full funding for all participant training and construction plus a 2-year forward funding criteria and still found excess funds in the pipeline. Moreover, our recommendation recognizes the need to evaluate the rationale for excess funds in the pipeline before taking steps to deobligate the funds.

Calculation of Excess Pipeline

To calculate the amount of excess funds in the pipeline as of September 30, 1989, we applied the criteria that projects and programs should have no more than 2 years of funding, but construction and participant training could be fully funded up-front. We applied this criteria to our 103 projects and programs. Specifically, we used the following steps in our calculation.

Step 1

We calculated the pipeline as of 9/30/89 (total obligations minus total expenditures as of 9/30/89, based on mission controller records).

Step 2

From the pipeline in step 1, we subtracted the committed and uncommitted obligations for construction and participant training, as listed in the PO6B report from the missions.

Step 3

From the amount in step 2, we subtracted the estimated expenditures for fiscal year 1990, as listed in the missions' fiscal year 1992 Annual Budget Submission. We also checked these estimates against project files and examined spending plans with the responsible project officers.

Step 4

From the amount in step 3, we subtracted the estimated expenditures for fiscal year 1991, based on the project review and the 1992 Annual Budget Submission. We similarly checked these estimates against project files and discussions with the responsible project officers.

Step 5

(a) If the amount from step 4 was positive, this was the amount in the pipeline in excess of 2 years of planned expenditures.

(b) The remaining projects had between 1 and 2 years of funding and did not have excess pipelines.

Comments From the Agency for International Development

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

ASSISTANT
ADMINISTRATOR

FEB 15 1991

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International
Affairs Division
General Accounting Office
Washington, D.C. 20548

REFERENCE: GAO Draft Report - "Foreign Assistance: Funds Obligated Remain Unspent for Years"

Dear Mr. Conahan:

Administrator Roskens has asked me to provide the Agency for International Development (A.I.D.) comments on the subject report. It has been reviewed by appropriate officials in the Agency and their comments follow.

In summary, we find the report helpful in documenting the relatively small percentage of the A.I.D. pipeline which is in need of corrective action. We will implement the recommendations, subject to the observations in the attached comments.

Thank you for the opportunity to comment on this report.

Sincerely,

Reginald J. Brown

Reginald J. Brown
Bureau for Program
and Policy Coordination

Attachment: a/s

cc: IG/PPO

Comments of the Agency for International Development (A.I.D.) on the General Accounting Office (GAO) Draft Report, "Foreign Assistance: Funds Obligated Remain Unspent for Years"

General Comments

In general, A.I.D. concurs with the draft report and its recommendations. We find the report helpful in providing documentary evidence that the bulk of the Agency's pipeline is well-managed and not excess to the operating needs of the Agency's programs.

We agree that there are still some project balances which should be reviewed and, unless documented to be required for project operations, should be deobligated. The Agency Controller sent expanded guidance on conducting Section 1311 reviews to our overseas controller personnel on October 12, 1989. The guidance was a serious attempt to overcome deficiencies in our 1311 reviews by stressing the need for adequate documentation supporting the reviews of projects and the requirement for coordination between the controllers' staffs and project officers in the review process. The expanded guidance highlighted that any reviewer of the workpapers should be able to conclude that a careful review of each unliquidated obligation and commitment document was conducted. In addition to better guidance on 1311 reviews, the Agency has been taking steps to tighten the management of its pipeline through portfolio reviews that tend to single out non-performing projects through an examination of projected versus actual expenditures of the project, the outputs planned versus achieved, and the percentage of project life that has elapsed.

As a result of these efforts, the Agency has been successful in reducing its aggregate pipeline during each of the past two years, as the graph and summary data in the GAO draft report indicate, and we expect to make further progress in that regard. We would have preferred, therefore, that the GAO report highlight that progress in a more visible way, such as in the Executive Summary.

Now on pp. 37-38.

While the draft report notes the sometimes deleterious effects of earmarking and functional Development Assistance account constraints on the Agency's pipeline, we would have preferred to see a more pointed analysis of these factors. It is our view that earmarking and functional accounts are major contributors to pipeline build-up. For example,

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whereas the GAO analysis found eleven percent of the pipeline in the six sample countries to be excess to requirements, only two percent of the total was in the three unearmarked countries; the remaining nine percent was in earmarked countries -- Egypt, Pakistan and the Philippines. As for functional accounts, in instances where such constraints have been eliminated, as was done in the Development Fund for Africa, we have been able to make much more active use of deobligation-reobligation authority to reduce pipeline.

Now on p. 33.

In the discussion of the advantages of performance budgeting, while the report indicates that the Agency requested authority to undertake performance-based allocations, it fails to mention that Congress, by retaining the traditional functional account appropriations structure in FY 1991, did not provide the flexibility to facilitate such budgeting. Also, although the report indicates the advantages of using performance criteria to control pipeline, it does not acknowledge the converse -- the potentially positive effect of pipeline as a "carrot" to induce policy reforms by the recipient -- nor its consequential need to provide additional up-front funding.

GAO Recommendations

Recommendation 1:

GAO recommends that the A.I.D. Administrator review the funds remaining in projects more than nine months beyond the completion of activities and deobligate funds that cannot be adequately justified.

Agency Comments

Now on pp. 37-38.

We concur with the recommendation. Indeed, it is standard Agency practice to require deobligation of such funds -- as indicated by the fact that the GAO found less than one percent of the sample pipeline to be involved. Nevertheless, we will further emphasize this requirement in future guidance to the field. We believe, however, that mission directors in the field are in the best position to assess the justification for leaving funds in a project pipeline beyond the completion date and should be delegated responsibility for the decision to deobligate. As the GAO study found, there are instances when leaving funds in a pipeline beyond the completion date is necessary -- e.g., when final claims for payment are delayed, when constraints in the mission may dictate postponing such deobligations, or when issues may arise with the host government over a potential deobligation.

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Recommendation 2:

GAO recommends that the A.I.D. Administrator require missions and offices to identify excess funds in the pipeline at the end of each fiscal year, provide a rationale as to why the excess exists, and direct that the mission take the necessary steps with the host government to deobligate the funds if the rationale is not consistent with A.I.D.'s guidance.

Agency Comments

Now on pp. 37-38.

We concur with the GAO recommendation, again, with the caveat that we believe mission directors are best able to make the determination as to when deobligation is the appropriate course of action.

In dealing with the notion of excess pipeline, we believe the draft report should have tackled the issue of what constitutes appropriate forward funding. The Agency has always permitted flexibility for missions to exercise management judgment and has always encouraged full funding of certain activities such as participant training. The current pipeline reflects this guidance. It can be termed "excess" only in reference to a rigid standard -- in this case GAO chose two years of forward funding. While we appreciate that the recommendation only requires A.I.D. to review its pipeline against requirements, we would have preferred that the draft report make clear that there are valid reasons for exceeding a rigid standard and that, in many cases, missions could legitimately choose not to deobligate funds which exceed any such standard.

Recommendation 3:

GAO recommends that the A.I.D. Administrator require that future A.I.D. project and program agreements contain the standard provision stating the conditions under which A.I.D. could unilaterally deobligate certain assistance funds (such as in the case of long delayed projects). Although U.S. national interest, political considerations, or constraints regarding the reprogramming of earmarked funds, may affect the extent to which A.I.D. actually uses this management tool, nevertheless, it would provide leverage to get some projects or programs moving in the right direction.

Agency Comments

Now on pp. 37-38.

While the Agency agrees with the intent of the recommendation, we question whether it is needed. It is

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already established Agency practice to encourage provision for unilateral deobligation. This is reflected in A.I.D.'s programming procedures handbook, which provides a standard clause for inclusion where possible in project and program agreements; this clause gives the Agency the ability to terminate project agreements upon thirty days written notice by either party. We have found that, where missions are able to negotiate this provision into a bilateral agreement, it is sufficient to permit unilateral deobligation when necessary. Where missions do not include such a provision, it is for political reasons, i.e., inability to gain the agreement of the host government, rather than failure to seek this authority.

Moreover, unilateral deobligations, no matter what the reason or what provisions have been negotiated to allow them, are actions which can affect U.S. relations with the country far beyond the affected project. They are done only for the most compelling of reasons and considerations of excess pipeline alone may not always constitute sufficient reason. However, because the GAO qualified its third recommendation to this effect, the Agency is satisfied that these potentially extenuating foreign policy circumstances are recognized.

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